

A Short Guide to Thinking About Industrial Policy:
Takeaways from the New Economics of Industrial Policy¹

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First Draft July 2024 for IMF/PIIE Volume

Abstract: The recent return of industrial policy has inspired a new economic literature on industrial policy. This chapter summarizes six high-level insights from this nascent literature. (1) Properly defined, industrial policy is a vast space. (2) Its use is widespread and on the rise. (3) Given the breadth and extent of industrial policy, sweeping, binary claims about it are unsustainable. (4) The emerging empirical picture is complex and should be. (5) Political economy is first order, and institutional details matter as much as technical details. (6) We should not discount the potential of smaller, contemporary transformations; best practices and policy lessons are likely in our backyard. We point to some recent experiences in developing countries. These takeaways are not exhaustive and point to a more nuanced, pragmatic body of knowledge.

Industrial policies are about structural transformation: they are how states try to shape the nature of economic activity within an economy. Amid multiple crises and a reordering of postwar institutions, states have become more ambitious in their efforts to reconfigure national economies. Industrial policy is having a renaissance. Although this renaissance has been a long

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time coming, it is only now translating into robust economic literature, which we call the new economics of industrial policy (Juhász, Lane, and Rodrik 2024). This wave of renewed thinking about industrial strategy is updating how we think, conceptualize, and engage with these controversial policies.

The following is an attempt to provide some high-level takeaways emerging from the new economics of industrial policy. These insights are not exhaustive, nor do they lay out best practices—a perennial question around industrial policy. After all, the literature is still nascent and playing catchup to practice. Instead, we propose some points to guide our thinking. These points speak to the value added to this nascent literature and our desire to move beyond the tropes and platitudes that often permeate popular discussions of these policies. While still emerging, insights from this literature can already help us pragmatically engage with these important policies.

1. Industrial policy—clearly defined—means a big tent. Definitions matter, especially in debates around industrial policy. When we get serious about concepts, we quickly realize industrial policy refers to a large swath of policies—strategies economists may be sympathetic to (e.g., R&D credits) but also some perennial objects of ire (e.g., tariffs). We define industrial policies as those government policies that explicitly target the transformation of the structure of economic activity in pursuit of some public goal (Juhász, Lane, and Rodrik 2024). More precisely, industrial policies have two things. First, they have an intentional goal connected to structural transformation, such as promoting decarbonization, lagging regions, and export or import substitution (ibid p.4). Second, in doing so—explicitly or implicitly—industrial policies

have specificity or scope. That is, policies may target a type of economic activity, specific sectors, places, and more.

Such ex-ante definitions are useful, but they are also controversial in the politicized world of industrial policy. Yet, a principled definition of industrial policy must accommodate historical caricatures and contemporary practice. Such definitions are also not our own but are the product of deep thinking by practitioners and fellow researchers (USITC 1983; Warwick 2013). Our own broad view corresponds to independent frameworks produced by OECD researchers (Crisciolo et al. 2022a, b).

These principled definitions are broad and accommodate many types of state action. As such, they avoid several important pitfalls. For instance, such definitions should not rely on the type of instrument. After all, the industrial policy toolbox is vast and historically in flux. These choices are shaped by factors like state capacity (e.g., tariffs may be easier to deploy than complex quotas with complementary auctions) or the multilateral environment (e.g., the decline of the tariff under globalization and the ascent of non-tariff measures). Consider the case of tariffs and infant industry protection, which defined debates around development policy since the 18th century (Juhász 2018). If we take all tariffs as industrial policy, empirical economists will quickly run into trouble.

Perhaps more importantly, tariffs—and overt nominal protectionism more generally—are but one way countries pursue industrial policy objectives. For example, contemporary industrial strategies often use targeted FDI (foreign direct investment) as part of their industrial policy toolkit (Harding et al. 2019), and FDI is famously used in Chinese joint venture policy. Yet, FDI is often considered as a more liberalizing policy. Another example is export financing, which has become a popular—perhaps *the* most common—form of contemporary industrial policy (Juhász

et al. 2022). Industrial policy also may not entail transfers or typical forms of spending, such as when industrial strategies deploy competition policies or coordination institutions (see Point 6 below). Such policies belie the traditional link between nominal protectionism or subsidies and industrial policy activity.ⁱⁱ

2. The use of industrial policies is widespread and on the rise. Thus, principled definitions mean industrial policies are hard to ignore; the industrial strategy toolbox is vast, and its use is widespread. Tens of thousands of industrial policies have been deployed since 2010, according to Juhász et al. (2022). In this paper, we use a machine learning algorithm to take our definition of industrial policy to the Global Trade Alerts database, the largest available database on discriminatory state action. A simple tally of policies shows that industrial policies make up nearly 30 percent of the policies in the dataset. Diligent work by Criscuolo et al. (2022b) calculates that industrial policy spending is around 1.5 percent of GDP for a set of OECD member countries. Simply put, principled definitions of industrial policy make them hard to ignore. They are also becoming increasingly important in the post-COVID-19 world; Juhász et al. (2022) also show a marked rise in industrial policies since 2010, measured both as a share of total policies and raw counts. These patterns are likely driven by the rise of industrial policies among high-income economies. This rise of industrial policy is conspicuously salient in the United States—a place some economists have argued should be uniquely immune to industrial policy (see “Industrial Policy’: It can’t happen here” by Yoffie and Badaracca 1983).

3. Sweeping, binary claims about industrial policy are unsustainable—and a distraction.

Where industrial policy is omnipresent, it is difficult to reject, whole cloth, an entire class of

economic policies. Yet, conversations around industrial policy often center on strong, binary claims: industrial policy is good or bad, possible or impossible, effective or ineffective, and the list goes on. Academic economics has largely mirrored these dichotomies and, safe to say, largely converged on rejecting industrial policy, *prima facie*, best summarized by variations of Gary Becker’s maxim: the best industrial policy is none at all.

Thus, until recently, industrial policy has fallen out of favor among policymakers and academics. To the extent that academics engaged with the subject, it was largely relegated to high-level debates surrounding the possibility of industrial policy. Much intellectual labor reflected a type of “impossibility theorem” view of industrial policy, with the most extreme critics claiming that good industrial policy is impossible (see Munger 2022). Interrogating industrial policy's real-world details has been beside the point.

However, it is a tall order to claim that industrial policy is literally impossible or to reject outright this important form of policymaking given the thousands of industrial policies now being deployed. Historically, this would mean rejecting the role of industrial policy in important episodes of structural transformation, such as in post-World War II economic development. Yet, we have scarcely scratched the surface in understanding the role played by industrial strategy in shaping industrialization (Juhász and Steinwender 2023)—whether deleterious or propitious. For some essential sectors, from semiconductors (Goldberg et al. 2024) to steel shipbuilding (Barwick et al. 2019), it is difficult to imagine markets divorced from industrial policy. The state permeates the history of such industries.

Yet, more importantly, these flavors of economic research are ill-equipped and inadequate to confront the re-emergence of these policies beyond parroting that we should not pursue them. While academics rejected industrial policy, policymakers spent the last decade

deploying a steady march of new interventions. The economics literature, thus, is largely not (yet) up to the task of guiding “the how” of industrial policy practicalities; this goes both for skeptics attempting to constrain and reduce the distortions, and proponents considering how best to address objectives, and as well as technocrats searching for best practices.

4. The emerging empirical picture is complex, and it should be. If industrial policies are ubiquitous, the same cannot be said for the body of empirical work studying them. Until recently, the literature has been notoriously sparse, especially since economics’ empirical turn (see Harrison and Rodríguez-Clare 2015). However, a succession of empirical work has emerged that applies data-driven tools to questions around industrial policy. The new economics of industrial policy delivers a varied landscape far more context-dependent and nuanced than the early consensus. We suspect this is cause for cautious optimism or, for skeptics, a more pragmatic pessimism; see Juhász, Lane, and Rodrik (2024).

Take, for example, work on the East Asian growth miracle, which early mainstream economic research viewed the role of industrial policy (Pack 2000) with some skepticism. Yet this skepticism largely pre-dated economics’ empirical turn. Among other things, measurement, reverse causality, misspecification, and the thorny issues around endogenous targeting all complicate the interpretability of early empirical work (Rodríguez and Rodrik 2000; Rodrik 2012; Lane 2020; Juhász, Lane, and Rodrik 2024). Since then, starting with theoretical and quantitative work by Liu (2019) and empirical work by Lane (2023), a wave of research has understood the role of industrial policy in the historical East Asian episode. The outcomes have been far less pessimistic than early industrial policy critics put forth. Lane (2023) has inspired a follow-up literature natural experiment on South Korea’s experience with the Heavy Chemical

and Industry (HCI) Drive; see subsequent work by Kim et al. (2021) and Choi and Levchenko (2023). This work suggests a more productive role played by industrial policy.

A common refrain about industrial policy literature is that “evidence is mixed.” Yet, industrial policy results ought to be mixed. At the extremes, the performance of Department of Energy R&D policies (Myers and Lanahan 2022) will differ from the discordant volleys of Trumpian tariffs (for example, Bown et al. 2021). The developmental interventions in South Korea’s steel are now seen as a success, and subject to much different failures than, say, Nigeria’s post-independence experience (Oyelaran-Oyeyinka and Adeloje 1995; Adegbite 2021).ⁱⁱⁱ When talking about a broad category of policies, evidence *should* be mixed (Lane 2020).³ Mixed results are inevitable when considering a vast policy mix. Noting policy heterogeneity is scarcely informative, especially relative to understanding the sources of heterogeneity and whether reliable aspects of policy design drive better results than others.

Place-based policy—a principal vehicle of industrial policy in the US—is another example of where rich, nuanced literature is emerging. Despite the long skepticism around place-based policy, there is increasingly a cautious case for spatially targeted policy (Austin, Glaeser, and Summers 2018). This is true for pro-employment policies, whose returns are likely higher in disadvantaged, distraught regions. Thus, the patterns become more productive when we disaggregate the varied landscape. On the one hand, the over-reliance on cash-based and tax incentives deployed by local governments is socially costly and has poor efficacy. On the other hand, the carefully designed active labor market programs and service extension for businesses have shown much more promise (Bartik 2020a; Neumark 2020), as have the long-run social

benefits of regional R&D policy and shocks (Kantor and Whalley 2023; Gross and Sampat 2023).

Thus far, the conclusions from place-based research hold for the literature, more broadly: the devil is in the details. This may mean that the market failures and needs in one area may be distinct from those elsewhere. Bartik (2020b) notes that in the world of place-based policy, this often means attention should be paid to coordinated packages that are carefully attuned to the specificity of local conditions: e.g., infrastructure may be more important in one context, job training in another (ibid p.119). The small print is the unsung hero of successful experiences.

5. Political economy is first order—best practices will be as much about institutional details as about technical details. If the devil is in the details, this is especially true when it comes to the *political economy* of industrial policy—the role played by the political practicalities surrounding choice and implementation. The theoretical, textbook case for industrial policy is almost banal, with market failure playing a leading role, as they do in most neoclassical motivations for policy.^{iv} The most incisive critiques about industrial policies are about their political dimensions, such as concerns about their political spillovers and rent-seeking, requisite state capacity, informational constraints, and more. The wide variation in the historical experience with industrial policy inspired a rich qualitative comparative literature—largely outside of economics—on the political determinates of successful industrial policy, famously Evans (1995).

The political details matter because all industrial policy *is* political. Our recent work, Juhász and Lane (2024a), details why it is so difficult to think about industrial policy as a purely economic phenomenon, divorced from the messy politics of the real world. By construction,

industrial policy often makes salient decisions prioritizing some forms of economic activities over others. In doing so, industrial policy produces clear beneficiaries and does so with diffuse costs; thus, it is prone to distributive politics. Moreover, because industrial policy seeks to produce structural change, it can often challenge political incumbents whose political power depends on the economic status quo. As such, good industrial policy choices may not always translate into good policies. Likewise, since industrial policies are often complex and require ample state resources, their success hinges on the state's administrative capacity, bureaucratic autonomy, and other dimensions of state capacity.

Thus, industrial policy is not only about locating the right technocratic policy mix but also about strategies that operate within the constraints posed by the political world. Juhász and Lane (2024a) summarize this in a stylized framework, where good industrial policy depends on (a) whether policies are supported by the current political environment and, if so, (b) whether the state can implement them. In the parlance of political economy, we refer to (a) as “political constraints”—the political realities that shape industrial policy choices, and we refer to (b) as “capacity constraints”—the ability of the states to implement said industrial policies. Despite the important ground uncovered by the empirical evaluation of industrial policy (see Point 4 above), less quantitative work has understood the role played by political constraints in informing policy efficacy. As a result, best practices will be about the political economy of practice as much as they are about the technical and economic finalities of policy.

Industrial policies, thus, must be considered within the constraints posed by the political world. Reducing the prospects of failure will likely be a lesson in interrogating the nature of these forces. It isn't enough to glean best practices from other environments; rather, it is important to understand the politics that allowed them to be realized. It may be that the best

policies are not necessarily those that worked best elsewhere but instead are those that work within the unique domestic political constraints. It isn't so much mimicry but domesticating policies to work within a country's context.

Yet, if there is any truism and running constant surrounding industrial policy, it is that successful industrial policy has always invested in the capacity to deploy policy properly. The devil has indeed been in the details, with careful investments in bureaucracies and attention paid to institutional design.

6. Best practices and takeaways are likely around us. Focus on large, historical episodes can blinker us to smaller yet powerful takeaways, notably for low-income economies.

Moonshots—or large-scale, transformative policies guided by broad missions—have become a focus of industrial policymaking. After all, issues like the green transition require monumental efforts. Similarly, large postwar transformations are totemic in conversations surrounding industrial policy. It makes sense, then, for policymakers to tap large episodes for best practices and blueprints for industrial strategy. Yet, as scholars dedicated to studying the miracle, we don't want postwar revolutions to distract us from the smaller, everyday transformations—and failures—that can also inform best practices. Much of the latter has yet to be fully studied or even identified.

In other words, if we're searching for policy lessons, we should not ignore recent history or our backyards, where we have seen a proliferation of smaller, beneath-the-radar policies since the Global Financial Crises. If the best industrial policies are those that work within our current political constraints, the circumscribed, everyday revolutions also matter. Moreover, these policies may provide steppingstones to large-scale policymaking; this has been the message in

the sequencing of policies around green industrial policies, such as those studied by Jonas Meckling, Bentley Allan, Jonas Nahm, and other political scientists (e.g., Meckling, Sterner and Wagner. 2017; Meckling and Allan 2020; Meckling and Nahm 2022).

The East Asian miracle is miraculous not because of the export-oriented industrial strategy *per se*, but rather how entrepreneurial states availed of the fortuitous political environment (Juhász and Lane 2024a). For many economies, the political economy constraints to implementing large-scale, sweeping policies—such as those behind the East Asian miracle—are often binding. Mimicking policies wholesale without understanding whether they are compatible with local political constraints presents ripe territory for government failure. Yet, it is not that these options are off the table. Nor is this pessimism about industrial policy *writ* at large. Rather, the more incremental wins of recent years may be more congruent with the current political economy.

In particular, the constraints faced by low-income economies will surely be binding, not least because they face severe capacity and fiscal constraints. This may be one of the reasons we have seen a disproportionate return on industrial policy among high-income economies. However, we have seen success stories in the developing world, although they are less well-studied. These include the recent experiences with FDI and the development of the Moroccan EV and auto parts sector (Samir et al. 2022; Metz 2024) or the high-tech service sector in transition economies (Manelici and Pentea 2021). Or consider the role of FDI and industrial policy in the ascent of Costa Rican manufacturers into the global value chain for medical equipment (Gereffi et al. 2019; Berard 2024).^v Perhaps overlooked are success stories in high-value-added agri-business sectors, such as South African horticulture, specifically export success in their citrus industry (Zalk 2019; Chisoro and Roberts 2024).

Ample experience in Asia and Latin America also shows us that not all instruments are necessarily fiscally intensive; the importance of coordinating and deliberative industrial policy institutions has been essential across many settings, from postwar East Asia to Thailand's more modern foray into export promotion (Juhász and Lane 2024a). In Latin America, these deliberative private-public bodies have been deployed precisely because they were an alternative to expensive outside consultants and have helped identify important market failures and government bottlenecks, notably in the case of Peru's *Mesas Ejecutivas* (Ministry of Production 2016; Ghezzi 2017), but also elsewhere in the region (see Fernández-Arias et al. 2016). The point: important parables for industrial policy abound. While we are busy debating large transformations, we mustn't neglect our recent experience. In particular, those policies that work within the constraints posed by the contemporary world.

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ⁱ This piece synthesizes and draws on the ideas from Juhász, Lane, and Rodrik (2024); Juhász and Lane (2024a,20b); and Lane and Juhász (2023).

ⁱⁱ See Harrison and Rodríguez-Claire (2015) on the distinction between “harder,” more distortive policies versus contemporary “soft” industrial policies.

ⁱⁱⁱ For work on the heterogeneity of steel policy, see Blonigen (2016).

^{iv} See Rodrik (2009).

^v We thank Bentley Allen and staff at the EBRD for pointing out the Moroccan experience.